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**FISCAL IMPACT STATEMENT**

**LS 6481**

**BILL NUMBER:** HB 1052

**NOTE PREPARED:** Dec 20, 2014

**BILL AMENDED:**

**SUBJECT:** Common Construction Wage.

**FIRST AUTHOR:** Rep. Ober

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill changes the composition of a committee that determines a scale of wages for a public work project. It also changes from 3 months to 12 months the period during which the scale may be used. The bill provides that after December 31, 2015, the common construction wage law does not apply to a project in which the actual construction costs are less than \$1,000,000. (Under current law, this figure is \$350,000.) The bill makes technical changes.

**Effective Date:** July 1, 2015.

**Explanation of State Expenditures:** *Department of Labor:* The change from a quarterly to yearly common construction wage scale as well as increasing the common construction wage cost threshold on public works projects from \$350,000 to \$1 M will result in a savings to the Department of Labor (DOL). This savings is indeterminable at this time. DOL provides administrative and technical support to local common construction wage committees. Currently, DOL provides 1.5 FTEs towards these activities.

*Public Works Projects:* Indiana's common construction wage is a wage determination system that is often more broadly referred to as a prevailing wage. By increasing the common construction wage threshold for public works projects from \$350,000 to \$1 M, it is likely that overall construction costs for public works projects will decrease, although by an indeterminate amount.

The preponderance of the literature on prevailing wage requirements suggests that they increase labor costs in state and local public works projects. Therefore, it is reasonable to state that any limiting on the use of the common construction wage may result in lower compensation plus fringe benefits for workers on public works projects. Additionally, if the literature is correct, in addition to lowering overall construction costs,

limiting use of the common construction wage for public works projects may also have the following effects:

- Debt incurred to finance projects may decrease due to the lower project costs, thereby reducing bonding and/or property taxes.
- Additional funds may be available for other public works projects. Also, capital expenses may be reduced, making more funding available for noncapital expenses in project budgets.

**Additional Information:** In Indiana, common construction wages are adopted in public hearings of common construction wage committees. Each committee is charged with considering county-specific wage data from the AFL-CIO, Associated Builders and Contractors (ABC), and other interested parties to determine wage rates appropriate to the county where the project is located. The DOL provides assistance to these committees.

The bill changes the composition of these committees so that there are no representatives from the AFL-CIO or ABC, thereby reducing the committee membership from 5 to 3 members.

A number of studies suggest that these kinds of prevailing wage provisions generally increase the labor cost (compensation plus fringe benefits) of public works projects, and exemption from these requirements may reduce expenditures. There is not agreement within the literature as to the level of increase in labor costs due to the prevailing wage. Unfortunately, data and methodological limitations have caused many studies on prevailing wage requirements to be inconclusive.

Conversely, some studies suggest that these types of prevailing wage systems lead to greater efficiency, quality, and safety by providing for a stable, well-trained labor force. If such benefits were not realized due to the repeal of prevailing wage requirements, public institutions may experience an increase in costs relating to these factors in the long run. Also, some studies suggest that prevailing wage systems, by increasing the wage to affected workers, increases the overall tax base due to higher incomes and consumption.

The 2013-2015 biennial budget bill appropriated \$848 M in nontransportation construction projects for the state. Transportation capital projects are defined as those in the building of highways, roads, and bridges and are not subject to the common construction wage. The biennial budget bill also authorized \$615 M in bonding for state educational institutions.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** See *Explanation of State Expenditures*.

**Explanation of Local Revenues:**

**State Agencies Affected:** DOL and state agencies constructing public works projects.

**Local Agencies Affected:** Local units constructing public works projects.

**Information Sources:** Indiana Department of Labor, <http://www.in.gov/dol/2723.htm>; Jeanne Mejeur, National Conference of State Legislatures, [jeanne.mejeur@ncsl.org](mailto:jeanne.mejeur@ncsl.org); Kelsay, Michael P., James Sturgeon, and Kelly Pinkham. *The Adverse Economic Impact from Repeal of the Prevailing Wage Law in Missouri*. University of Missouri. 2011. <http://cas.umkc.edu/economics/resources/prevailingwagestudy.pdf>; Kentucky Legislative Research Commission. *An Analysis of Kentucky's Prevailing Wage Laws and Procedures*.

Kentucky Legislative Research Commission. 2001. <http://www.lrc.ky.gov/lrcpubs/RR304.pdf>; Fiscal Policy Institute. *The Economic Development Benefits of Prevailing Wage*. 2006. <http://www.fiscalpolicy.org/FPI%20Prevailing%20Wage%20Brief%20May%2006.pdf>; Mahalia, Noonshin. *Prevailing Wages and Government Contracting Costs - A Review of the Research*. Economic Policy Institute. 2008. <http://www.epi.org/publication/bp215/>; Belman, Dale and Paula Voos. *Prevailing Wage Laws in Construction: The Costs of Repeal to Wisconsin*. The Institute for Wisconsin's Future. 1995. [http://www.faircontracting.org/PDFs/prevailing\\_wages/PrevailingWage%20Laws%20in%20Construction\\_%20Cost%20of%20Repeal%20to%20Wisconsin.pdf](http://www.faircontracting.org/PDFs/prevailing_wages/PrevailingWage%20Laws%20in%20Construction_%20Cost%20of%20Repeal%20to%20Wisconsin.pdf); Dean, Andrea M. *An Economic Examination of West Virginia's Prevailing Wage Law*. The Public Policy Foundation of West Virginia. 2009. [http://heartland.org/sites/default/files/West%20Virginia%20Prevailing%20Wage%20Report\\_0.pdf](http://heartland.org/sites/default/files/West%20Virginia%20Prevailing%20Wage%20Report_0.pdf).

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